



CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2005

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		<b>Local Government Name</b> Chesaning Public Library	<b>County</b> Saginaw
<b>Audit Date</b> March 31, 2005	<b>Opinion Date</b> June 1, 2005	<b>Date Accountant Report Submitted to State:</b> June 1, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |  |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).   |

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

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<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707	
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-4
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	5
Government-wide Statement of Activities	6
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	7
Reconciliation of Balance Sheet of Governmental Fund to the Statement of Net Assets	8
Statement of Revenues, Expenditures, and Changes in Fund Balance	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	10
Notes to Financial Statements	11-15
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	16

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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June 1, 2005

## INDEPENDENT AUDITOR'S REPORT

To the Library Board  
Chesaning Public Library  
Saginaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Chesaning Public Library, Saginaw County, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chesaning Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Chesaning Public Library, Saginaw County, Michigan as of March 31, 2005, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2005

As management of the Chesaning Public Library, (the Library) we offer the readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended March 31, 2005. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34) omits certain comparative data that will be available in future years.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the past year. Net assets at March 31, 2005, totaled \$165,666.26.

Overall revenues were \$195,908.36.

The Library did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Library's basic financial statements. The basic financial statements are comprised of three components (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Library also includes in this report other supplementary information in addition to the basic financial statements themselves.

ENTITY-WIDE FINANCIAL STATEMENTS

The Library's audit report includes two new government-wide financial statements. These statements provide both long-term and short-term information about the Library's overall status in a manner similar to a private-sector business, and are reported using the full accrual basis of accounting.

The statement of net assets provides information on all of the Library's assets and liabilities, with the difference between the two being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The statement of activities provides information showing how the Library's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

A fund is an accountability unit used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related laws and regulations.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Library's governmental fund. These statements report short-term fiscal accountability focusing on the use of spendable resources available at the end of the year. Such information may be useful in evaluating a government's short-term financing requirements.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balance provide a reconciliation to assist in understanding the differences between these two perspectives.

The Library adopts an annual budget and budgetary comparison statements are included in the basic financial statements to demonstrate compliance.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2005

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual.

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Chesaning Public Library, assets exceeded liabilities by \$165,666.26 at the close of the fiscal year.

Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

The following summarizes the net assets of the Chesaning Public Library at March 31, 2005:

<b>Net Assets Summary</b>	
Current assets	\$141,150.87
Capital assets – net	<u>31,410.82</u>
<b>Total Assets</b>	<u><b>\$172,561.69</b></u>
Current liabilities	\$6,895.43
Long-term liabilities	-
<b>Total Liabilities</b>	<u><b>\$6,895.43</b></u>
<b>Net Assets</b>	
Invested in capital assets	\$31,410.82
Unrestricted	<u>134,255.44</u>
<b>Total Net Assets</b>	<u><u><b>\$165,666.26</b></u></u>

FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

During the fiscal year ended March 31, 2005, the Library amended the General Fund budget to take into account events occurring during the fiscal year. These budget amendments fall into the following categories:

- Changes made to reflect increases or decreases in anticipated expenditures.
- Changes made to reflect increases or decreases in anticipated revenues.
- We received \$16,439.23 from the estate of Christine D. LaVigne. Of this money, \$8,000.00 was spent on a new, digital microfilm machine, \$6,000.00 was entered into a building fund, and \$2,439.23 is available for future projects.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2005

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Library's investment in capital assets as of March 31, 2005, amounted to \$31,410.82 (net of accumulated depreciation). This investment in capital assets includes library materials, furniture, fixtures and equipment. Capital assets for the Library increased by \$10,114.60. This recording of capital assets and depreciation was not required prior to GASB 34, and an inventory was necessary for the beginning of this fiscal year. In prior years, assets were expensed in the year purchased. Future assets will be recognized only when value is equal to or greater than \$500.00 for each individual asset or each combined group of assets purchased. The major capital asset events for the current fiscal year were the purchase of various computers, library materials, a digital microfilm machine and a book display. Total depreciation expense for this year amounted to \$4,642.14 with ending accumulated depreciation being \$43,463.87.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

Penal fines have been steadily decreasing over the last 10 years and are expected to continue to do so.

The State of Michigan Legislature is also currently deliberating a bill to cut state funding to libraries.

CONTACTING THE LIBRARY'S MANAGEMENT

This financial report is designed to provide a general overview of the Chesaning Public Library finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Library Director, Chesaning Public Library, 227 E. Broad Street, Chesaning, Michigan 48616.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
March 31, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	134 189 97
Petty cash	200 00
Taxes receivable	<u>6 760 90</u>
Total Current Assets	<u>141 150 87</u>
NONCURRENT ASSETS:	
Capital Assets	74 874 69
Less: Accumulated Depreciation	<u>(43 463 87)</u>
Total Noncurrent Assets	<u>31 410 82</u>
TOTAL ASSETS	<u>172 561 69</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	2 273 98
Accrued wages	<u>4 621 45</u>
Total Current Liabilities	<u>6 895 43</u>
NONCURRENT LIABILITIES	<u>-</u>
Total Noncurrent Liabilities	<u>-</u>
Total Liabilities	<u>6 895 43</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	31 410 82
Unrestricted	<u>134 255 44</u>
Total Net Assets	<u>165 666 26</u>
TOTAL LIABILITIES AND NET ASSETS	<u>172 561 69</u>

The accompanying notes are an integral part of these financial statements.



CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2005

	<u>Program Revenue</u>	<u>Governmental Activities</u>
	<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	
Governmental Activities:		
District Library	<u>(176 353 62)</u>	<u>2 185 50</u>
		<u>(174 168 12)</u>
General Revenues:		
Property taxes		102 398 92
State aid		9 766 39
Penal fines		47 720 44
Interest		756 93
Miscellaneous		<u>33 080 18</u>
Total General Revenues		<u>193 722 86</u>
Change in net assets		19 554 74
Net assets, beginning of year		<u>146 111 52</u>
Net Assets, End of Year		<u>165 666 26</u>

The accompanying notes are an integral part of these financial statements.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

BALANCE SHEET - GOVERNMENTAL FUNDS  
March 31, 2005

<u>Assets</u>	<u>General</u>
Cash in bank	
Petty cash	134 189 97
Taxes receivable	200 00
	<u>6 760 90</u>
Total Assets	
	<u><u>141 150 87</u></u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Accounts payable	
Accrued wages	2 273 98
Total liabilities	<u>4 621 45</u>
	<u>6 895 43</u>
Fund equity:	
Unreserved:	
Undesignated	
Total fund equity	<u>134 255 44</u>
	<u>134 255 44</u>
Total Liabilities and Fund Equity	
	<u><u>141 150 87</u></u>

The accompanying notes are an integral part of these financial statements.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND  
TO THE STATEMENT OF NET ASSETS  
March 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUND

134 255 44

Amounts reported for governmental activities in the statement of  
net assets are different because –

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost  
Accumulated depreciation

74 874 69  
(43 463 87)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES

165 666 26

The accompanying notes are an integral part of these financial statements.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND  
Year ended March 31, 2005

	<u>General</u>
Revenues:	
Property taxes	102 398 92
State aid	9 766 39
Charges for services	2 185 50
Penal fines	47 720 44
Interest	756 93
Miscellaneous	<u>33 080 18</u>
Total revenues	<u>195 908 36</u>
Expenditures:	
Culture - Library:	
Salaries	91 908 93
Payroll taxes	7 035 00
Dues and fees	17 705 69
Supplies	9 486 95
Books and materials	23 463 01
Utilities	7 570 66
Insurance	4 207 00
Professional services	2 300 00
Retirement	4 654 29
Repairs and maintenance	2 368 70
Miscellaneous	1 011 25
Capital outlay	<u>10 114 60</u>
Total expenditures	<u>181 826 08</u>
Excess of revenues over expenditures	14 082 28
Fund balance, April 1	<u>120 173 16</u>
Fund Balance, March 31	<u><u>134 255 44</u></u>

The accompanying notes are an integral part of these financial statements.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
Year ended March 31, 2005

NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUND 14 082 28

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense  
Capital Outlay

(4 642 14)  
10 114 60

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

19 554 74

The accompanying notes are an integral part of these financial statements.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Chesaning Public Library, Saginaw County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Library contain all the Library funds that are controlled by or dependent on the Library's executive or legislative branches.

The reporting entity is the Chesaning Public Library. The Library is governed by an elected Library Board. As required by generally accepted accounting principles, these financial statements present the Library as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Library's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Library reports only one fund as follows:

- The General Fund is used to record the operations of the Library which pertain to maintaining and operating the Library. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Library. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

All purchases of materials are reflected in expense when paid.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Library 2004 tax roll millage rate was .9394 mills, and the taxable value was \$108,773,539.00.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment

10-50 years

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences (Vacation and Sick Leave)

The estimated current portion of the liability for vacation and sick leave benefits attributable to the Library's governmental funds is recorded as an expenditure and liability in the respective funds. Employees are paid for part of unused sick leave upon termination of employment.

Post-employment Benefits

The Library provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2004, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Library's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Library's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Library's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$31,410.82.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Library Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Library Board.



CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 2 – Budgets and Budgetary Accounting (continued)

5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Library Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Library Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Library Board has designated three banks for the deposit of Library funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Library's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>134 189 97</u>
Amounts in the bank balances are without considering deposits in transit or uncleared checks.	
	<u>Bank Balances</u>
Insured (FDIC)	132 319 09
Uninsured and Uncollateralized	-
Total Deposits	<u>132 319 09</u>

The Library did not have any investments as of March 31, 2005.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 4 – Capital Assets

Capital asset activity of the Library's Governmental activities for the current year was as follows:

	Balance 4/1/04	Additions	Deletions	Balance 3/31/05
Furniture and equipment	64 760 09	10 114 60	-	74 874 69
Total	64 760 09	10 114 60	-	74 874 69
Accumulated Depreciation	(38 821 73)	(4 642 14)	-	(43 463 87)
Net Capital Assets	25 938 36	5 472 46	-	31 410 82

Note 5 – Deferred Compensation Plan

The Library does not have a deferred compensation plan.

Note 6 – Defined Contribution Plan

The Library provides pension benefits for certain employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees working at least 1,000 hours per year are eligible to participate at the minimum age of eighteen. The Library and employees contribute 6% and 5%, respectively, of the employee's base compensation. Library contributions for each employee vest immediately.

The retirement plan expense for the Library amounted to \$4,654.29 for the year ended March 31, 2005.

Note 7 – Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Library has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

CHESANING PUBLIC LIBRARY  
Saginaw County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	104 000 00	104 000 00	102 398 92	(1 601 08)
State aid	9 700 00	9 700 00	9 766 39	66 39
Charges for services	2 000 00	2 000 00	2 185 50	185 50
Penal fines	36 000 00	47 720 44	47 720 44	-
Interest	850 00	850 00	756 93	(93 07)
Miscellaneous	13 180 00	30 512 20	33 080 18	2 567 98
Total revenues	<u>165 730 00</u>	<u>194 782 64</u>	<u>195 908 36</u>	<u>1 125 72</u>
Expenditures:				
Culture – Library:				
Salaries	88 500 00	96 800 00	91 908 93	(4 891 07)
Payroll taxes	3 580 00	9 580 00	7 035 00	(2 545 00)
Dues and fees	19 000 00	19 000 00	17 705 69	(1 294 31)
Supplies	5 100 00	12 100 00	9 486 95	(2 613 05)
Books and materials	21 424 21	22 461 86	23 463 01	1 001 15
Utilities	10 000 00	9 000 00	7 570 66	(1 429 34)
Insurance	5 250 00	5 250 00	4 207 00	(1 043 00)
Professional services	1 600 00	1 600 00	2 300 00	700 00
Retirement	7 000 00	7 000 00	4 654 29	(2 345 71)
Repairs and maintenance	4 000 00	4 000 00	2 368 70	(1 631 30)
Miscellaneous	700 00	861 63	1 011 25	149 62
Capital outlay	<u>10 000 00</u>	<u>11 000 00</u>	<u>10 114 60</u>	<u>(885 40)</u>
Total expenditures	<u>176 154 21</u>	<u>198 653 49</u>	<u>181 826 08</u>	<u>(16 827 41)</u>
Excess (deficiency) of revenues over expenditures	(10 424 21)	(3 870 85)	14 082 28	17 953 13
Fund balance, April 1	<u>10 424 21</u>	<u>10 424 21</u>	<u>120 173 16</u>	<u>109 748 95</u>
Fund Balance, March 31	<u>-</u>	<u>6 553 36</u>	<u>134 255 44</u>	<u>127 702 08</u>

# CAMPBELL, KUSTERER & CO., P.C.

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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 1, 2005

To the Library Board  
Chesaning Public Library  
Saginaw County, Michigan

We have audited the financial statements of the Chesaning Public Library for the year ended March 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Chesaning Public Library in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Library Board  
Chesaning Public Library  
Saginaw County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2005. The implementation of this pronouncement for the Chesaning Public Library began with the year ended March 31, 2005. The daily operations and recording transactions did not change significantly, however, the Library is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Library's financial statements and this communication of these matters does not affect our report on the Library's financial statements, dated March 31, 2005.

To the Library Board  
Chesaning Public Library  
Saginaw County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants